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The Evolving Role of Canada in Southeast Asia

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Executive Summary

We have reached an historical inflection point in which the rules-based trade system which Canada helped shepherd into existence is rapidly breaking down. This holds important implications for Canadian engagement in Southeast Asia and beyond. The primary multilateral trade institution, the World Trade Organization, has proven ill-equipped to cope with current day challenges, and serious questions are arising about the organization's continued relevance. The stability and orderliness that has allowed trade to expand in the post-war years, bringing significant developmental benefits to every corner of the globe (Southeast Asia, in particular), is now being replaced by a more chaotic regime in which tariff and non-tariff barriers are on the rise and trade rules are ignored with impunity. The U.S. administration's radical reciprocal tariff regime violates foundational principles of the rules-based trade system, but the system was already badly wobbled. Southeast Asia presents Canada with a suitable partner for deeper integration, based both on the economic necessity for greater diversification as well as the region's historical support for rules-based trade.

Trade continues to face strong headwinds from populism and protectionist backlashes against trade. The concept of sustainable trade calls for trade to not only produce balanced economic growth but to also strengthen social capital and provide for environmental stewardship. Canada has a potential role to play in fostering greater trade sustainability to address some of the concerns raised by the critics of trade. The rising urgency of addressing climate change means that the environmental pillar of sustainability is particularly important. This is especially true for Southeast Asia, where the impact of climate change is expected to be especially severe, including disruption to economically critical agricultural activities, and rising water levels threatening low-lying urban areas. The rising U.S.-China geopolitical rivalry, along with increased U.S. protectionism, is forcing a fundamental reassessment of the ways in which Canada engages, in Southeast Asia and globally. Derisking with both the U.S. and China – through deepened trade and strategic ties with other countries – will be increasingly important.

Additional details will be further unpacked in the final section, but potential future research areas include:

- Charting Canada's course in trade as the rules-based global trade system continues to give way to a more chaotic, higher tariff trade environment.
- The imperative for sustainable trade.
- Repositioning Canada in an era of rising geopolitical tensions and U.S. protectionism.
- Addressing data gaps and capacity building needs in Southeast Asia

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1. Introduction

From a trade, economic, and geopolitical perspective, we have reached an historical inflection point. Foundational principles that have guided Canada's external relationships for eight decades are breaking down. The orderly, rules-based trade system that Canada helped shepherd into existence is facing significant challenges. The deep levels of trade interdependence, both regional and global, that have fostered geopolitical stability and economic prosperity - much to the benefit of Canada and countless other countries - can now no longer be assumed. Canada's closest and heretofore most reliable economic and security partner, the United States, has moved in directions that would have previously been unfathomable.

Globally, the urgency to address unwanted environmental, social, and economic by-products of trade are growing more intense as dislocations and inequities threaten to further undermine the already faltering support for trade. Sustainable trade policies which strengthen social capital and provide environmental protection are now more important than ever. Canada's solid track record in pursuing sustainable trade policies suggests the possibility of a leadership role. As this new and potentially more chaotic world order – particularly in trade – comes into sharper focus, Southeast Asia will be a primary theater in which many of these volatile crosscurrents intersect or perhaps collide.

The implications for Canada's role in Southeast Asia are profound. Both Canada and Southeast Asia have benefited from - and share a deep commitment to - the now fraying rules-based trade order. What role can both play in preserving the still valid foundational principles of the old system while creatively evolving the system to address past deficiencies and ensure the system is relevant to the modern-day realities of business, trade, and civil society? The experience in Southeast Asia with sustainable trade practices varies from country to country but is mixed at best. The growing imperative for greater trade sustainability, an area where Canada has distinguished itself, raises questions about how Canada can engage constructively in the region in a way that fosters sustainable trade practices. Finally, the U.S.-China geopolitical rivalry casts a long shadow on both Canada and Southeast Asia, due not just to geography but also for economic and geopolitical complexities it presents. While interests will not always align, both Canada and Southeast Asia need to develop strategies to cope with the fallout from the wider geopolitical framework. How does the U.S.-China strategic competition impact the way Canada navigates its Southeast Asian relationships?

The organization of this paper is straightforward. This introduction is followed by three sections on each of the aforementioned major themes: the collapse of rules-based trade (section 2), the imperative for sustainable trade (section 3), and the implications of rising geopolitical tensions (section 4). The paper concludes with a section on the implications of these trends on Canada's Indo-Pacific Strategy and potential future research areas (section 5).

2. Collapse of rules-based trade

The rules-based global trade system is breaking down, and Southeast Asia will be among the hardest hit.[2] How will this reshape Canada's approach to trade and its relationships in the region?

The rules-based global trade system, put in place at the end of the Second World War, has been a primary driver of economic growth and development in every corner of the globe and especially Southeast Asia. Steadily declining tariffs have opened large consumer markets in the developed world allowing countries in the region to successfully pursue transformational export-led growth strategies. Access to foreign direct investment has resulted in the transfer of management know-how and technologies that have built world-class supply chains across Southeast Asia. Adherence to mutually agreed trade rules has created a fair and predictable trade environment – a tremendous asset for the small, trade dependent economies in the region that would be ill-equipped to thrive in a "might makes right" environment.

We are now at a historical crossroads in which both that system and the foundational principles upon which it has been based are in jeopardy. Canada, as a primary architect, proponent, and beneficiary of that system, needs to make sense of the increasingly chaotic new trade world that is unfolding, reconsider longstanding assumptions, and reorient policies to not only mitigate risks but also to identify and capitalize on new opportunities that might be emerging. Charting a course forward is impossible without understanding how we got to the turbulent position we find ourselves in today. Reflecting on the confluence of factors that drove the establishment and subsequent evolution of the current system will help illuminate discussions about how to best manage the new era that is unfolding.

The creation of the rules-based system, beginning with the General Agreement on Tariffs and Trade (GATT) in 1948, demonstrated both a keen grasp of the world as it was at that time as well as a remarkably prescient understanding of what would be needed in subsequent decades. Canada's participation and leadership was critical then as it is now. Canada was among the first 23 contracting parties to the GATT and a Canadian diplomat, Dana Wilgress, was the first Chairman of the GATT Contracting Parties. The world of 2026 finds itself at an inflection point no less profound than that of 1948 - although perhaps for less dramatic reasons.

Wilgress and the other founders of the post-war trade system had just emerged from a horrific stretch of human history. In the space of little more than three decades, the world endured two world wars and one global depression. These painful experiences gave rise to a consensus view that the "old ways" in which countries related to each other, both economically and geopolitically, were no longer acceptable, and if future crises were to be averted, a fundamentally different system would have to be put into place. From an economic perspective, it had become clear that although protectionism was not responsible for causing the Great Depression, it had substantially deepened the crisis. A guiding principle which informed the work of the architects of the post-war order was that freer and more orderly trade would need to be a pillar of the new system.

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[2] 'World entering dangerous new era': Singapore PM warns of '1930s style' fallout from Trump tariff - BusinessToday
https://asean.org/wp-content/uploads/2025/09/24.-Joint-Media-Statement-AEM-57-adopted.pdf
https://asean.org/wp-content/uploads/2025/07/FINAL-Joint-Communique-of-the-58th-AMM.pdf
https://eastasiaforum.org/2024/11/09/free-trade-agreements-key-to-asias-prosperity/

2.2 The system starts to unravel

Despite the manifest benefits it has delivered, the rules-based trade system has been under duress for more than a decade. While many of the underlying stresses have been exacerbated by the current U.S. administration, not all of today's problems can be laid at its feet. The World Trade Organization (WTO), the successor organization to GATT, was launched in 1995 with high hopes and expectations. It was intended as a more "beefed up" iteration of the GATT, prominently including a robust dispute settlement system and an expanded set of trade disciplines into previously uncovered areas like services. In short, the WTO was envisioned as a global trade referee ensuring that everyone played the game by mutually agreed rules, making the trade system even more stable and orderly. It was also expected to be the chief catalyst for pursuing additional rounds of even deeper trade and investment liberalization, leading to further global economic integration.

By the close of the first quarter-century of the 21st century, even the WTO Director General is acknowledging the extent to which the organization has failed to fully live up to its mandate. We are in the midst of the most significant trade war in a century and trade rules are being flouted with impunity, as the WTO has been mostly relegated to bystander status. While the organization unquestionably performs valuable work in areas such as capacity building, technical assistance, and trade policy reviews, it has not fulfilled the primary objectives for which it was created.

What went wrong? There are a multitude of factors. As an organization which necessarily operates based on consensus, the WTO has been victimized by its success in attracting members. The current 166 members represent a wide diversity in outlook, aspirations, and developmental status, pushing consensus on many issues beyond reach. To put things in perspective, this is an organization which required years of tough negotiations to agree on the definition of a "fish". The difficulty in achieving consensus means that there has not been a comprehensive update to the trade rule book in decades.

It is, however, the reciprocal tariff regime put in place by the current U.S. administration which is threatening to push the system over the brink. These arbitrary tariffs have eviscerated the principles of Most Favored Nation (MFN) treatment and non-discrimination that have formed the cornerstone of the rules-based system. Blatant disregard for trade rules and trade agreements has replaced stability with chaos.

2.3 Collapsing trade system points Canada towards Southeast Asia.

Under the prevailing assumptions and principles that have guided the trade system for eight decades, Canada's trade and investment patterns have been entirely sensible. Sharing the world's longest undefended border with the largest single economy and consumer market in the world positioned Canada to reap significant trade and economic benefits through progressively deeper integration. This began in earnest on a sectoral basis with the Auto Pact of 1965, followed by the Canada-U.S. Free Trade agreement in 1989. Not long after, the logic for a deeper, continent-wide integration including Mexico proved compelling. The result was the North America Free Trade

Agreement (NAFTA) of 1993. Under the first Trump administration, NAFTA was renegotiated and morphed into the Canda-U.S.-Mexico Agreement (CUSMA).

The renegotiation demonstrated that the U.S. was becoming less interested in seeking mutually beneficial continental integration and was more interested in using the agreement to tilt production and employment back towards the U.S., at the expense of its North American partners. The U.S. administration has already signaled that it intends to push this envelope even further in the CUSMA review and potential renegotiation to take place later in 2026 (the CUSMA review/renegotiation also holds deep implications for Southeast Asia, which will be explored in detail further down). Today, with the reciprocal tariff regime in place, the erratic US approach to further tariffication evident, and the directionality of CUSMA made clear, Canada's interdependence with the U.S. needs to be rethought.

As Canada turns its attention to more diversified trade relationships, Southeast Asia is a natural partner. It shares Canada's commitment to rules-based trade and its appetite for further trade and investment liberalization. Although no single market could ever entirely replace the U.S., the region is among the fastest growing in the world. Its projected growth rate for 2026 is roughly 4.5%[3] - far above the U.S. or EU and in the same projected range as China.

As Canadian policy makers consider options and strategies in the new era of trade that has begun to emerge, learning from the past will be essential. Many of the assumptions that underpinned approaches to trade from the 1990s to the 2010s have proven to be flawed, while the overall objective – freer trade – remains sound.

Trade displaced workers do not necessarily transition seamlessly to employment in trade-competitive sectors. Instead, we have seen prolonged periods of unemployment and lower lifetime incomes, and the accompanying psychological duress workers face, often manifesting in a host of societal ills, including alcoholism, drug abuse, and domestic violence. In the U.S., the previous administration pursued a "U.S. worker centric" approach to trade aimed at ameliorating many of the trade-related employment concerns that Canada also faces. Unfortunately, the related policies all too often degenerated into a pretext for protectionism and a disengagement from the WTO.

3. Does Canada's sustainable trade[4] leadership create an opportunity in Southeast Asia?

Trade, along with its ability to deliver developmental, societal, and economic benefits, is under threat. Long before current U.S. Presidentarrived on the scene, strong populist and protectionist backlashes against trade had begun to take hold, leading to rising tariff and non-tariff barriers and a retreat, at least multilaterally, from the decades-long pursuit of progressively freer trade. The "real world" impacts of trade are being viewed more skeptically, in contrast to the ascendancy of free trade orthodoxy that previously held sway.

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[3] ASEAN Economic Outlook 2026: Growth, Risks & Opportunities

[4] Sustainable trade essentially means engaging in international trade in a way that not only generates balanced economic growth but also strengthen social capital and provides for environmental stewardship. The leading sustainable trade index is the Hinrich-IMD Sustainable Trade Index, which provides much of the framing for the issues in this section. See https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/sustainable-trade-index/.

Questions – in some cases entirely legitimate – have been raised as to whether trade benefits broad segments of civil society, as had been promised, or whether trade's economic benefits were being disproportionately enjoyed by large financial institutions, multinational corporations, and Wall Street, at the expense of "average" citizens. Other questions have arisen over the extent to which governments have put in place the broader economic infrastructure that is required to allow citizens to compete successfully in international markets.

Social considerations such as gender equality, labor rights, access to health care and high-quality education are becoming increasingly viewed in the context of international trade policies, forcing overdue conversations about the extent to which the pursuit of freer trade is helping or hindering the achievement of societal objectives in these areas. As climate change concerns have intensified in recent decades, the carbon intensive impact of goods trade and the environmental degradation that accompanies resource extraction and heavy manufacturing has raised the imperative to conduct trade in ways that promote environmental stewardship and minimize air and water pollution and the exhaustion of natural resources. In many instances, countries have pursued unbalanced and unsustainable trade policies, placing primary emphasis on the pursuit of short-term economic payoffs, irrespective of longer-term impact on social and environmental considerations.

In developing countries, unsustainable trade policies frequently take the form of lax environmental and labor standards as a means of attracting trade and foreign direct investment. In developed countries, unbalanced trade policies have sometimes contributed to significant and painful social dislocations. The rush to access lower cost products through free trade without sufficient phase in periods or adequate adjustment assistance has left trade displaced workers and entire communities with grim career and life prospects. While other factors, such as technology, have clearly contributed to this unfortunate downward spiral for some, dislocations resulting from trade have been front and center.

This lack of a sustainable approach to trade policies has contributed to the current questioning. Reengineering trade and trade relationships so that sustainable trade policies are at the forefront will help repair the damage.

3.1 Sustainable trade

Sustainable trade is based on the three pillars of sustainable development – economic, social, and environmental – first identified by the UN Brundtland Commission in its landmark 1987 report, Our Common Future. Some typical indicators of sustainable trade include low levels of income inequality, high levels of technological uptake (especially as it relates to access to trade), gender equality, access to quality education, labor protections, and high environmental standards and policies to mitigate climate change. The concept of sustainable trade centers around the need to strike a balance across the three pillars and requires an intelligent assessment of the difficult trade-offs that will sometime arise. For instance, governments in developing countries that include populations struggling to meet life's needs will often face intense pressure to improve access to viable livelihoods. Sometimes the most immediate route to boosting employment is through laxer environmental standards.

As countries build greater sustainability into their trade policies, assessing specific policies under each of the three pillars of sustainability – economic, social, and environmental – can be a useful way of ensuring that a proper balance is being struck across all three. According to the leading index of sustainable trade policies, Canada has managed to strike those difficult balances with a high degree of success and has established itself as a leader in sustainable trade.[5]

3.2 The economic pillar

The economic pillar of sustainable trade is intended to gauge the extent to which a country is promoting economic growth in a balanced way through international trade. There are a variety of critical factors that provide indications of how successfully – or unsuccessfully - a country is performing under the economic pillar. The quality of the underlying trade infrastructure will either help or hinder a country's ability to sustainably engage in trade. This certainly includes physical infrastructure – ports, roads, bridges, railways, and airports – but is also captured by the quality of logistical networks and the speed and efficiency of customs operations. The technological infrastructure – internet speed, penetration, and reliability – is growing in importance as a means of facilitating both physical and digital trade, including services. Low tariff barriers and participation in high quality trade agreements are also critical indicators of a country's ability to sustainably trade, as are macroeconomic factors related to productivity, exchange rate stability and a growing labor force. On all these issues, Canada performs extremely well.[6]

3.3 The social pillar

The social pillar of sustainable trade assesses the extent to which trade is being used to strengthen social capital. The degree of gender equality and the ability of women to engage in trade provides a strong indicator of social capital. Other issues include high labor standards and an educational system that is producing workers capable of successfully engaging in international trade. On perhaps the most fundamental level, for trade to be sustainable, it must be conducted in a way that builds social and public confidence in the outcomes it produces. Important indicators here include the degree of income inequality in a country (which is frequently attributed to trade – correctly or incorrectly), the existence or absence of forced labor, and a stable and orderly political system. Again here, Canada is performing well on the social pillar of sustainable trade.[7]

3.4 The environmental pillar

The environmental pillar of sustainable trade looks at the extent to which a country engages in international trade in a way that strengthens environmental stewardship. As such, it is much more than just a measure of who has the most pristine environment. Important indicators include the extent to which the country participates in trade agreements that contain high quality environmental standards, the portion of natural resources in overall trade, as well as wastewater treatment, use of renewable resources, and the level of air and water pollution. While Canada

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[5] https://www.visualcapitalist.com/sp/hf07-sustainable-trade-index-2025/.
https://www.imd.org/wp-content/uploads/2025/10/20251001-STI-2025-Main-Report-WP-FINAL.pdf.
[6] https://www.imd.org/wp-content/uploads/2025/10/20251001-STI-2025-Main-Report-WP-FINAL.pdf.
[7] Ibid.

scores well on most environmental indicators, it is held back by the high levels of natural resources in its trade.

Across the board, however, when evaluating Canada's ability to strike a balance across the three pillars of sustainable trade – economic, social, and environmental – Canada has an exceptionally good story to tell.

For most countries in Southeast Asia, their performance in sustainable trade is a mixed bag. Low barriers to trade, sophisticated physical and technological infrastructure, a high quality educational system, and strong environmental protections have generally enabled Singapore to stand out. Other countries in the region struggle mightily to advance sustainable trade. Myanmar, Cambodia, and Laos are poor performers almost across the board on all three pillars of sustainable trade, particularly when it comes to labor standards and the quality of the educational systems. In the case of Myanmar, the issues are compounded by extreme political instability.

There are, however, surprises to the upside. The Philippines is performing strongly under the environmental pillar, reflecting its services rather than manufacturing-oriented economy and the strong commitment it has shown to high level international environmental agreements. Two other countries in the region – Vietnam and Thailand – seem to have made significant commitments to more effectively striking a balance across all three pillars and have demonstrated progress under each, perhaps beyond what might be expected given their levels of national income. After years of pursuing economic growth through trade, both are now pursuing more sustainable patterns of trade that continue to seek economic growth, but not at the expense of social and environmental considerations.

Canada has several assets it can leverage if it looks to support greater trade sustainability in the region. Several areas might be fruitfully explored:

3.5 Corporate Canada

Canada's corporate sector has a strong track record of building sustainability into their operations, both domestically and abroad. In many instances, companies are ahead of governments in pursuing sustainability, for instance, by maintaining higher environmental standards for themselves than those required by local law in the jurisdictions in which they operate. Particularly when it comes to foreign direct investment, Canadian companies can play an important role in fostering greater sustainability throughout the countries in the region where they are active, both by virtue of their own activities as well as by the pressure it places on other market participants to match their conduct.

3.6 Leveraging Canada's reputation

As Canadian officials navigate this increasingly complex terrain with Southeast Asian partners and look for ways to anchor a sustainable trade ethos, consideration should be given to ways to leverage Canada's reputation as a trusted and reliable trade and investment partner and champion of rules-based trade and sustainability.

Attention should be paid to one specific aspect of Canada's reputational "comparative advantage": the quality of educational institutions in Canada and eagerness of its outbound students. As it becomes more difficult for foreign students to access educational opportunities in the U.S. - and the broader environment for both long term and short-term immigration to the U.S. grows more hostile – Canada has an opportunity to present itself as a desirable alternative.

Specific outreach strategies targeting Southeast Asian students looking for a North American educational experience could yield substantial dividends. Likewise, strategies to facilitate the ability of Canadian students to study in Southeast Asia, through formal exchange programs or otherwise, should be considered. Government funded scholarships for such study could be a wise investment. Canada's reputation, albeit tarnished at least somewhat by visa restrictions, would only be strengthened by increased number of talented students studying in the region and building relationships with Southeast Asia's leaders of tomorrow. Canada's students could serve as highly effective "brand ambassadors".

4. Geopolitical divides and a transformed US reshape Canada's role in Southeast Asia

No country can escape its geography. This is especially relevant for Canada as it sits next to an historic superpower with which it has traditionally shared not only a border, but also similar values, a common strategic and defense outlook, and deeply integrated and mutually beneficial economic relations.

Against the backdrop of the current volatile evolution underway south of Canada's border, the U.S. and China continue to conduct an intensifying geostrategic competition that draws in both Canada and Southeast Asia, with deep implications for both. For the nations of Southeast Asia that have traditionally sought to maintain beneficial economic and strategic relations with both countries, the intensifying U.S.-China competition is a defining concern. Canada's position is likewise complex. While deep U.S.-Canada economic integration remains, the political relationship between the two traditionally close allies has deteriorated Canada's relationship with China also faces challenges as a result of trade disputes that have led to retaliatory and counter-retaliatory tariffs as well as geopolitical squabbles on issues ranging from election interference to the detainment of citizens.

In many respects, Canda's relationship with China has tracked closely with that of the wider West, including the U.S. Understanding the mistaken assumptions of the last several decades that have underpinned the West's approach to China will contextualize the discussion of how Canada needs to manage the geostrategic rivalry with China and its spillover effects on its relationships in Southeast Asia.

4.1 On the belief that China would become "just like us…"

One of the advocates for China's integration into the global economy and admission into the WTO was U.S. President Bill Clinton. Clinton was broadly representative of a policy consensus that had emerged throughout the West (including Canada) in the late 20th and early 21st century. The conventional wisdom of the time can be roughly summed up as follows: Bringing China into the global economy was almost entirely upside for the West. China's closed economy would be opened up through its admission to the WTO. Competitive western firms would have access to a previously untapped market of 1.4 billion consumers and exports and related employment would boom.

Beyond the economic arguments, the geopolitical assumptions were considered in some cases to be even more compelling. The received wisdom and broadly accepted narrative across liberal economies were that China's admission to the WTO and integration into the world economy and wider global systems would eventually lead to China becoming "just like us" at least in economic terms and perhaps, to a lesser degree, even political terms.

Although these assumptions now seem flawed, it should be recalled that the 1990s were an era in which liberal democratic principles of governance and free market economics appeared to be ascendant. Some even posited that we had arrived at the "end of history".

4.2 Miscalculations become evident

Doubts about the accuracy of this set of presumptions gradually began to creep into Western policy circles and by the 2010s had begun to approach a critical mass, at least in the US. By this time, several inconvenient truths were becoming evident. First, despite its admission to the WTO and the presumption that China would adhere to both the letter and the spirit of its trade-opening codicils, the reality was that the anticipated level of access to China's market had simply not materialized. The west was beginning to learn that China's unique system of state-directed capitalism could be manipulated to bring it into technical compliance, all the while frustrating the aims of those rules, be it for market access or the treatment accorded Westerns firms doing business in China.

Rather than closing, trade deficits with China, particularly the U.S., were growing. In 2001, the U.S. goods trade deficit with China was about $83 billion, but by 2018 it had surged to $419 billion.[8] On the one hand, U.S. consumers benefited from lower priced goods imported from China. The integration of China into the global economy also generated prosperity in China. On the other hand, the labor dislocations resulting from Chinese import penetration were concerning.

A quarter of a century after its admission to the WTO, China has become the second largest economy in the world and a global leader in a range of cutting-edge technologies including electric vehicles and solar panels and has already demonstrated that it is more than capable of contesting the West for global AI leadership. It has accomplished this without materially altering the aspects of its economic or political systems that have been of greatest concern to the West. Simultaneously, China has been challenging the prevailing world order. The finance dimension is also critical. China holds close to $700 billion in U.S. Treasuries, which helps finance the U.S. debt and keeps the dollar strong.[9]

Canada's position is complex. While sharing many U.S. concerns about China's conduct, it is also growing increasingly estranged from the U.S., chaffing against heavy-handed U.S. trade tactics and coercion, including indications that the U.S. administration would like to pressure Canada and

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[8] China Balance of Trade

[9] ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/slt_table5.html

Mexico to match its China's tariffs to create a "Fortress North America". Additional complexities are now also coming to a head that will inevitably draw in Southeast Asia. As explored in detail below, the CUSMA review is one such example, as are provisions in agreements such as the U.S.-Malaysia agreement[10] which requires Malaysia to align with national security measures put in place by the U.S. – a thinly veiled reference to China.

4.3 China and Southeast Asia will be front and center in CUSMA review

Correctly or incorrectly, the second Trump administration has drawn several lessons from the experiences of Trump's first term that have carried through to the present day. While the U.S. has pursued several policies designed to pressure China to reduce its role in global supply chains and limit its ability to benefit from access to the U.S. market, China has bypassed many of these efforts through various third country strategies. Perhaps most well documented has been the movement of Chinese production facilities out of China and into Vietnam and other countries, especially in Southeast Asia to avoid the high U.S. tariffs.[11] This was intended to avoid the high – in some cases prohibitive – tariffs the U.S. has applied to a range of products shipped from China. The U.S. tariffs were intended to offer protection to competing domestic producers, and at least in the imagination of Trump administration officials, reduce the U.S. trade deficit.

Things have worked out much differently. Hyper-competitive Chinese firms still benefited from various forms of Chinese state support, including preferential access to capital, while now producing in – and exporting from – Vietnam. For these firms, the high tariffs assessed by the U.S. on products from China were no longer an issue, as they benefited from lower wage rates in Vietnam. While there was no dramatic impact on reducing the U.S. trade deficit with China, the trade deficit with Vietnam expanded.[12] Relocation of Chinese production facilities to third countries was not the only strategy employed by firms in China to frustrate the aim of the U.S. tariffs. Less scrupulous firms also engaged in fraudulent transshipment, using third countries – frequently in Southeast Asia – to "origin wash" their products to evade the punitive tariffs intended for products of China. The high U.S. tariffs on China only served to heighten the incentives for using Southeast Asia and other locations for this practice. These realities have placed Southeast Asia under increased scrutiny from the U.S. administration.

The reciprocal tariff regime put in place by the Trump administration, as well as bilateral agreements struck with countries such as Vietnam, include transshipment provisions targeting these practices. Transshipped products will face a 40 percent tariff when entering the US. While China is not explicitly named, it is generally recognized that these provisions are intended to address transshipment of Chinese products. The transshipment provisions are likely to prove problematic for several reasons. It has not yet been made clear, for example, if these provisions apply only to instances of illegal transshipment as described above. If they are intended only as crackdown on fraudulent falsification of customs documentation, then they should be warmly welcomed by anyone who supports lawful, rules-based trade.

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[10] https://www.whitehouse.gov/briefings-statements/2025/10/agreement-between-the-united-states-of-america-and-malaysia-on-reciprocal-trade/

[11] China factory exodus drives Vietnam as global manufacturing hub | IDNFinancials
Vietnam Emerges as a Manufacturing Hub amidst China

[12] Vietnam | United States Trade Representative

4.4 Ripple effect back to North America

While questions over transshipment provisions or other Trump administration policies will not be clarified until rules and protocols are developed and released, one important point is already clear. U.S. objectives on squeezing China out of supply chains will ripple back to Canada and North America. Under article 34.7 of CUSMA, the parties are to undertake a review of the agreement in 2026. The U.S. has already opened its public consultation period. The Trump administration intends to use the mandated review to ensure that neither Canada nor Mexico are used by Chinese firms in similar ways that Vietnam, Malaysia, and other Southeast Asia countries have been.[13]

Given the long list of complaints, the U.S. administration has leveled against both Canada and Mexico, along with its wider concerns about Chinese production, trade, and investment in North America, some type of a renegotiation seems a near certainty. The changes the U.S. has already signaled it intends to pursue will create challenges[14] for Canada both in terms of production and trade within North America as well as for its relationship with Southeast Asia. The North American complications are self-evident. The original NAFTA agreement was intended to create a fully integrated North American production base and market that would enhance the competitiveness of U.S., Canadian, and Mexican companies globally as well as at home. The U.S. administration has brought a very different perspective.

It views the accord as a means to strong arm production into the U.S. and benefit U.S. companies, often at the expense of wider continental competitiveness and frequently to the detriment of Canadian and Mexican firms. Examples of this were evident in the first renegotiation of NAFTA (which became CUSMA), including an automotive rule of origin intended to tilt production back to the U.S. All indications are that the U.S. administration intends to push the envelope even further during the 2026 CUSMA review.

Mexico has seen a surge in investment from Southeast Asia, especially Malaysia, Indonesia, the Philippines, and Singapore from firms looking to take advantage of preferential tariff treatment under CUSMA and extricate themselves from the crossfire of U.S. efforts to limit penetration from Chinese products. Expect the US to push for an even more stringent rule of origin, perhaps even specifically targeting Chinese inputs, intended to reduce Chinese inputs or componentry receiving preferential tariff treatment in the North American markets. For several countries in Southeast Asia that are deeply imbedded in China-centric supply chains, this would present a significant problem.

5. Implications for Canada and its Indo-Pacific Strategy and potential research questions

The three macrotrends examined – collapsing rules-based trade, the growing imperative for sustainable trade, and intensifying U.S.-China geopolitical tensions – hold important implications for the execution of Canada's Indo-Pacific Strategy. Launched in November 2022, the strategy provides a roadmap for Canada's engagement in the region. It seeks to position Canada as a proactive player in a region critical to its future prosperity, security, and global influence. The Indo-

[13] https://www.scmp.com/opinion/world-opinion/article/3326820/why-asia-has-huge-stakes-us-mexico-canada-trade-deal-review
[14] https://www.whitecase.com/insight-alert/north-america-prepares-2026-usmca-review-and-potential-renegotiation.

Pacific Strategy acknowledges the region's growing importance as the world's economic and geopolitical center of gravity. The strategy outlines a comprehensive framework to deepen Canada's engagement across five key pillars: promoting peace and security, expanding trade and investment, strengthening people-to-people ties, supporting sustainable development and climate action, and defending democratic values and human rights. Economically, Canada aims to diversify trade and reduce reliance on traditional markets by expanding partnerships with Indo-Pacific economies.

Much of Canada's Indo-Pacific Strategy, in particular its objective of deepened engagement in the region and expanded trade and investment ties, is predicated on the presumption that Canada will be operating within a trade system that continues to adhere to at least the basic principles that have defined trade for eight decades.

This could suggest the need for Canada to pursue narrower and more flexible trade coalitions built around specific issues such as digital trade, supply chain resiliency, trade and the environment, trade facilitation, and inclusivity. It also suggests the possible need to prioritize countries that appear to offer the highest prospects for reliability. Japan, Australia and the other member countries of the CPTPP, along with South Korea (a non-CPTPP member) are likely near the top of that list. The pursuit of new free trade agreements the strategy calls for should also be reconsidered. In the new world of trade, we find ourselves in today, traditional FTAs might no longer be the most relevant or reliable instrument to obtain the deepened integration Canada seeks.

The growing imperative for greater trade sustainability will in most respects only reinforce the direction of travel spelled out in the strategy. Many of Canada's objectives under its Indo-Pacific Strategy are highly synergistic with the foundational principles of sustainable trade and the specific indicators most typically used to evaluate trade sustainability. The social pillar of sustainable trade emphasizes the need to strengthen human capital and institutional capacity, specifically, inter alia, through inclusive development, gender equality, education, and digital upskilling. Each of these issues is likewise identified as objectives under the Indo-Pacific strategy. There are also significant synergies between the Indo-Pacific strategy and the environmental pillar of sustainable trade. Both recognize the importance of climate cooperation, clean technologies, renewable energy, and strong environmental commitments in trade agreements. Intensifying U.S.-China geopolitical tensions serve to further highlight important themes raised by the Indo-Pacific strategy.

The surprisingly sharp decline in bilateral relations with the U.S. will complicate the security and defense cooperation objectives spelled out in the strategy. Viewed through either a strategic or economic lens, the case for deepened Canadian engagement in Southeast Asia is strong, as a hedge against deepening complications in Canda's relationship with the U.S., China, or both.

5.1 Potential research priorities moving forward

The foregoing analysis suggests several potential future research areas to be considered.

Research Priority 1:

How should Canada chart a new course in trade as the progressively more open, rules-based trade system of the past eight decades gives way to a more complex, higher tariff regime?

Why does it matter?

- The orderly and stable post-war trade system is unraveling at a pace, and to an extent, that would have been inconceivable a decade ago. Canada needs to proactively develop new strategies and approaches to cope with a far more volatile trade environment characterized by unpredictable tariff policies and trade agreements and trade rules.

Canada has historically played a strong leadership role in supporting and advancing the rules-based multilateral trade system, first in the GATT and then the WTO, its successor organization. It has simultaneously been at the vanguard in seeking and concluding bilateral, trilateral, and regional free trade agreements. The 1989 Canada-US FTA was the first major bilateral trade agreement ever negotiated and helped pave the way for all those that followed. Canda's growing orientation towards the Indo-Pacific region is reflected in its participation in the CPTPP and its proactivity in advancing an inclusive and sustainable agenda during the negotiations. These themes are echoed and reinforced throughout the Indo-Pacific Strategy.

As the post-war system – along with its foundational principles – continues to rupture, consideration should be given to whether the multilateral system, and particularly the WTO, should continue to be a primary focal point of Canada's global trade strategy. This includes an assessment as to whether the WTO is "salvageable" in terms of its putative role as global trade referee and primary platform for updating trade rules and advancing multilateral trade and investment liberalization. While the WTO will continue to play an important role in areas like capacity building, sharing best practices, technical assistance, and trade policy reviews, its inability to reach consensus on major issues will continue to preclude successful conclusion of comprehensive negotiating rounds and rulebook updates as agreed in previous decades under the GATT. As the speed of technological change and the way cross border trade is conducted continues to accelerate, the WTO rulebook will grow even further out of date.

The impasse over reappointment of Appellate Body judges, which has largely disabled the dispute settlement mechanism, is unlikely to be resolved any time soon. This means the ability of the WTO to enforce even the trade rules currently in place will continue to be sidelined. Canada will need to assess the extent to which the "real work" of trying to salvage rules-based trade and further trade liberalization has shifted from the WTO and towards self-selected (and often regional) groupings of like-minded countries. This could potentially include sector or issue specific agreements. In essence, an informed inquiry into the relative strengths and weakness of multilateralism, regionalism, and "mini-lateralism" is needed.

The economic models suggest that the greatest benefits are to be reaped through a multilateral approach, but the real question is whether that path is available. The utility of shifting towards new format framework agreements that eschew market access commitments, (perhaps along the lines of the Indo-Pacific Economic Framework), should be part of the analysis. Although less ambitious at least in some respects (i.e., market access) than traditional FTAs, such agreements might be better suited to the newly emerging trade world. In terms of Canada's primary bilateral relationships, the current dynamic in both economic and political relations with the U.S. suggests that a derisking strategy vis a vis the U.S. is needed. Relations with China – which are challenged both by bilateral irritants as well as spillover from the U.S.-China rivalry – may have to pivot from the previous embrace of China's integration into the global trade system to a more nuanced approach that balances the need to protect Canada from China's predatory or punitive trade actions with a need to maintain mutually beneficial trade and investment patterns.

Several specific sub-topics are worth considering:

- What are the new assumptions that should guide Canada if we have entered a more chaotic, higher tariff trade environment for the long-term?
- As the principles of free and orderly trade continue to fray, are there strategies Canada can pursue to reassert the mutual benefits – both economic and strategic – that flow from a cooperative approach to deepened trade and investment ties?
- To what extent does Canada have the capacity to engage with other middle-power countries that share an interest in rules-based trade?
- Does the new era of trade we have entered require a new type of trade agreement? Are free trade agreements the most relevant instrument or will new thinking, new structures, and new frameworks be required?
- As Canada and the world enter a new era of trade, is an overhauled global system in the foreseeable future a viable possibility or should Canada focus more on cooperative regional initiatives with like-minded, economically important partners such as Southeast Asia?

Research Priority 2:

Advancing a sustainable trade agenda in Southeast Asia

Why does it matter?

- Despite rising protectionism and faltering support for trade, trade continues to be a fundamental ingredient for economic development and rising standards of living.

Trade – and societal support for trade - will continue to be under pressure for the foreseeable future. Developing trade policies and approaches to trade that utilize cross border commerce as a catalyst for the pursuit of desired social and environmental outcomes - alongside balanced economic growth - would provide an effective counterpoint to anti-trade critiques that have gained traction and placed trade in jeopardy. Ideally, a more robust sustainable trade agenda would help ensure social permission for governments and businesses to continue to pursue the pro-trade and pro-globalization policies that are so essential for continued prosperity in Canada, Southeast Asia, and beyond. While each of the three pillars of sustainability (economic, social, environmental) are critical, the rising urgency of addressing climate change means that the environmental pillar is particularly important.

Several specific sub-topics are worth considering:

- Is there a role for Canada in advancing trade sustainability in Southeast Asia?

- Trade facilitation addresses foundational prerequisites for sustainable trade, including automated customs procedures so goods can transit borders more seamlessly, simplified and reduced documentation requirements, capacity building, and greater transparency in customs procedures and rulings. What strategies or programs could augment greater trade facilitation in the region?
- The pursuit of gender equality and greater capacities to engage in digital trade are obvious priorities that support trade while also strengthening social capital and environmental protection, but what other areas of sustainable trade should Canada focus on?
- How can Canada more effectively inculcate an ethos of sustainable trade in the region and beyond? Are stronger sustainable trade provisions (as Canada championed in the CPTPP) in existing or future free trade agreements both viable and useful? Or…
- … are new types of agreements, frameworks, or protocols more effective in vigorously positioning trade sustainability as a guiding principle for the conduct of trade?
- How can the Canadian government and business sector partner more proactively to promote trade sustainability in Southeast Asia?
- Given that developmental budgets are strained, how can Canada build capacity and awareness in Southeast Asia under the economic, social, and environmental pillars of sustainability?
- What strategies and programs can be employed to more effectively leverage favorable perceptions about Canada's stability, reliability, and commitment to sustainability?

Research Priority 3:

As geopolitical upheaval intensifies and trade, economic security, and national security considerations grow increasingly intertwined, how should Canada reposition itself?

Why does it matter?

- Previous approaches and strategies that have allowed Canada to successfully navigate its foreign economic and strategic relationships in previous decades are decreasingly relevant today.

Canada is confronted with a rapidly evolving and uniquely challenging geopolitical environment that is overlaid with deep economic dimensions. Consider the crosscurrents Canada will need to navigate. For most of its history, the U.S. has been an indispensable economic and strategic partner. The CUSMA – and its predecessor agreement, NAFTA – deeply entrenched continental integration and bound the economic fortunes of the U.S. and Canada ever more tightly. Although previously inconceivable, Canada is now facing real questions about the possible termination of CUSMA or at least the possibility that the agreement could be amended in ways that privilege U.S. interests at the expense of Canada. The U.S. President, meanwhile, continues to make statements openly hostile to Canada. Against this backdrop. the U.S. and China are engaged in the most significant geopolitical rivalry since the Cold War. Canada's relations with both have been strained.

While Canada shares many of the same concerns the U.S. has over China's approach to trade and economic policies, and challenge to the prevailing world order, U.S. efforts to have Canada (and other trade partners) aligning with U.S. countermeasures places Canada in a hard position. Efforts at trade, economic and strategic diversification, to limit the leverage enjoyed by both the U.S. or China are wise and should be intensified but will not substantially alter the landscape overnight.

Several specific subtopics are worth considering:

- As a middle power growing more estranged from its historically closest partner – at a time of rising geopolitical rivalry - Canada has an opportunity to carve out a new role both globally and in Southeast Asia.
- What should that new role look like and how can it be used to advance the principles Canada believes in?
- What is the role of "values-based" considerations in Canada's geopolitical relationships? Should Canada seek greater alignment with partners that share Canadian sensibilities on issues like governance models, freedom of the press, freedom of religion, gender, identity, and inclusivity, as called for in the Indo-Pacific Strategy?
- Can Canada leverage relationships with other middle powers to more effectively protect and promote shared interests, or will individual middle power national interests frustrate attempts at coordinated joint action?
- Which partner countries offer the most realistic prospects for productive collaboration?
- Given the likelihood that the CUSMA review will produce modifications that could be problematic for Southeast Asia, how can Canada protect its own interests will also minimizing collateral damage on important partner countries in the region?

5.2 Region-focused research priorities

As outlined above, considerable overlap exists Canadian and regional trade priorities. There are, however, also several important region-focused research needs related to gaps in data and capacity building. For instance, Southeast Asia has become an integral cog in regional and global supply chains, and the trade performance of the region could be further enhanced by addressing important data gaps that have made it difficult for countries in the region to fully access the benefits of trade.

Better and deeper data could help firms, and in particular the SMEs that predominate in the region, to assess and act upon trade opportunities. Improving the quality and availability of data would also inform government policy makers as they develop trade and industrial policies, reduce hidden costs or inefficiencies in trade, and make the country more attractive for FDI. Filling these data gaps would mean lower costs and fewer surprises for companies, deeper regional integration and resilience, more FDI, and an easier and smoother adjustment to increasingly green and digital trade regimes.

Specific data gaps that could be meaningfully addressed include:

- **Sustainability and green trade**: Broadly speaking, the region faces a wide set of challenges in adjusting to the trade-related requirements of the green transition and the urgency of addressing climate change. For example, large, developed economies such as the EU are increasingly requiring data and documentation to demonstrate compliance with rigorous environmental and sustainability standards as a condition for exporting into their markets. The EU's Carbon Border Adjustment Mechanism (CBAM) is only one such case. Firms in Southeast Asia, especially SMEs, struggle to develop and provide the required data and documentation and are at risk of being closed out of important export markets. The green transition is requiring firms to track and provide data - for instance, emissions embedded in production - in areas where little capability exists.

- **Digital trade and digitally enabled services trade**: While data on goods trade in the region is robust, the data on services trade – especially higher value added and rapidly expanding digitally enabled services trade – is lacking. As the portion of global trade accounted for by digital trade continues to grow, the region's ongoing ability to access trade opportunities will be linked to the availability and quality of relevant data. Undermeasured services trade, both digital and non-digital, makes it more difficult to design policies to unlock the potential, and secure the needed investment and upskilling.

- **Value chain mapping**: while there is a preponderance of data which demonstrates the central role that Southeast Asia plays in regional and global value chains, there is considerably less available information which identifies how and where along the chain the most significant value is created. A deeper and more data driven understanding of the higher value-added segments of supply chains will help firms and countries access those segments.

- **Non-tariff barriers and market information**: Non-Tariff Measures (NTMs) such as technical standards, licensing requirements, and sanitary and phyto-sanitary (SPS) measures for agriculture can be as consequential for trade flows as tariffs. Unfortunately, regional data on NTMs is frequently out of date or incomplete. Firms, especially SMEs, can struggle to understand what rules apply and how compliance can be achieved, creating an impediment to cross border commerce. Government officials frequently lack a sufficient understanding of how regulations impact firms in the marketplace, resulting in ineffective and sometimes counterproductive regulations.

- **Logistics and trade facilitation performance**: border procedures, customs efficiency, trade infrastructure (both physical and digital), and corruption are strong indicators of a country's ability to engage in trade. Unfortunately, the granular data needed for assessment and improvement is not always available in Southeast Asia. Better data would help governments prioritize the most important investments in infrastructure and trade facilitation. Regional connectivity initiatives also require solid data to evaluate effectiveness and adjust course when necessary. Addressing these shortfalls in Southeast Asia would make trade cheaper and faster.

Beyond gaps in data which could be usefully addressed, most countries in the region would also benefit from capacity building. Two specific priority areas for capacity building are outlined below.

- **Trade negotiation training**: trade policy officials, especially in the less developed countries in the region, would benefit from training programs that build trade negotiation skills. The quality of trade opportunities available for a country (and the resulting economic benefits) is directly related to the quality of the trade agreements negotiated by trade officials. Yet, these officials are not always fully equipped with the skills, strategies, and techniques needed to secure agreements that advance the needs and interests of the countries they represent. As the broader multilateral trade system continues to unravel, and countries gravitate towards bilateral or regional accords, it is now more important than any other time in the post-war era for these officials to "up their game" and negotiate high quality agreements.

- **SME training**: high quality trade agreements are meaningless unless companies are equipped to take advantage of them. Large multinational corporations typically have expansive legal and trade teams which can parse oftentimes complex agreements to determine how to benefit from them. For the SMEs which predominate in Southeast Asia, unlocking the benefits of trade agreements is oftentimes simply beyond their capacity. Complying with complex rules of origin requirements to access preferential tariff treatment or even determining which trade agreements and which specific provisions are most relevant can be a non-starter. For a region that counts on SMEs to provide growth and employment, this lack of capacity is in urgent need of redress.

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